AN ANALYSIS OF CORPORATE FINANCIAL POLICY AND ITS INFLUENCE ON THE CORPORATE VALUE

Hendro Widjanarko

This research analyzes the corporate financial policy and its influence on the value of the firm. The corporate policy taking financial decision is an important part for the corporation because it concerning how to get the fund for finance investment and how to determine the optimal composition of fund source for the corporation, and is it best for the corporation using internal or external fund source, and is it preferable for the corporation utilizing internal or foreign capital in achieving optimal composition capital.

Population in this research is all of go public manufacturing corporations registered in Indonesian Stock Exchange (BEI) of the year 2000 until 2005, the total sample is 132 corporations. Choosing and determining the sample are based on technique of purposive sampling type judgment sampling. Relying on the criteria, there are 61 corporations as the sample, the data is taken for six years from 2000 till 2005, the amount of data (n) is 366. This research applied two variable, they are endogen variable (capital structure and value of the firm), and exogenous variable (capital expenditure, corporate growth, ownership structure, market risk and corporate profitability). Structural Equation Modeling is carried out to analyze this research.

The result points out that utilizing of debt is more profitable since the debt cost is smaller than stock cost, and there is taxes benefit of debt purpose. However, the corporate has to notice that utilizing the amount of debt will encourage the increasing of interest load and credit installment, so it has effect on the risk rising in cash flow disability to cover the corporate obligation. It is known as Trade-off Theory which asserts that debt utilizing will produce taxes thrift, but the other side it causes financial distress.

Keywords: capital structure, pecking order theory, agency theory, Asymmetric information and Trade-off Theory.

INTRODUCTION

Financial decision as an important part in financial management is still debatable issue. Previous research showed that there are many variable which influence the policy of debt utilizing not only saving of fee taxes but also improving the value of the firm. Myers (1984) states that financial structure in the corporation following a hierarchy, called pecking order theory.

The corporate policy taking financial decision is an important part in the corporation because it concerning how to get the fund for finance investment and how to determine the optimal composition of fund source for the corporation, and is it best for the corporation using internal or external fund source, and is it preferable for the corporation utilizing internal or foreign capital in achieving of capital composition optimizing. Titman (1988) has taken research in analyzing capital structure using variable of guarantied asset value, non-debt tax shield, growth, uniqueness, industry classification, corporate measure, volatility, profitability and leverage. Other research carried out by Ghosh and Francis (1999) finds that the corporation tends to follow pecking order theory (POT). Taggart (1977) in his research discovers that hypothesis of POT is more valid than hypothesis of optimal capital structure.

A corporation doing daily operational activity needs capital investment or capital expenditure that is a tangible asset such as a factory, machines, equipments, supply and other assets to produce long term sale units (Elmasry, 2004). The corporation that relying only on tangible assets is less capable to get main superior return in a long term. It is caused by the tangible assets investment can be replicated by competitors easily. It can be different if the corporate invests its assets in the form of intangible assets which give benefit for a long term like Research and Development (R&D) and brand development. There is positive relation between R&D contribution and value of the firm (Fenny and Rogers, 2001, Bosworth and Rogers, 2001, Bens, Hanna and Zhang, 2002, Hall and Orianny, 2003, Jeny and Jeanjean, 2003), it is showed by the more R&D activities the more higher of value of the firm.

Predicting of expected stock return level can be stated that only systematic risk or market risk which be reflected through *beta* which influence on the value of the firm measured by stock price (Sharpe, 1964 and Lintner, 1965 in Gitman, 2004: 255). The other market risks that can be reduced through portfolio diversification activity are related to the rate of interest and alteration of exchange rate (Lundholm and Sloan, 2004). Meanwhile, Hooker research (2004) shows that systematic risk measured by macro economy variable such as interest rate, GDP, inflation and exchange rate, unless exchange rate shows strength relation to value of the firm. Bailey, Mao and Zhong (2003) in their research state that exchange rate will influence on stock movement in capital market.

There are many researches about stock ownership structure towards financial policy from debt in the corporate capital structure. Hasbrouk (1988), Jensen et al. (1992) find out there is negative influence between managerial ownership and corporate capital structure. It is different from research carried out by Kim and Sorensen (1986), Grawal and Mendelker (1987), and Mehran (1992), they find out that managerial ownership has positive influence on corporate capital structure, because there is monitoring by an institution that can substitute debt agency cost then decreasing the agency cost and increasing the value of the firm.

Gitman (2004) argues that the corporate goal is not maximization profit but maximization wealth for the stock holders reflected by the rising of stock price. Rappaport (1986) declares that profitability is an important value driver and determining in creating the value of the firm. The increasing of profitability can be achieved through economic scale, decreased cost related to supplier and access of distribution, and eliminate overhead cost that has no added value. Research by Spivey and Macmillan (2000) declare that profitability has significant relation to stock price, but there is no relation to cash flow. Moreover, Arcellus, Mitra and Elston (2005) also find out there is entirely positive relation between profitability and value of the firm, it is consistent with research finding by Skinner and Sloan (1999).

Based on the above phenomena, it causes many problems related to debt utilizing in the corporate capital structure which has effect on value of the firm, particularly on group of manufactured corporation, so formulation of the problems in this research are: is there an influence of capital expenditure on capital structure policy and capital expenditure on value of the firm? Is there an influence of market risk on capital structure policy and market risk on value of the firm? Is there an influence of corporate growth on policy of corporate capital structure and corporate growth on value of the firm? Is there an influence of ownership structure on policy of corporate capital structure and ownership structure on value of the firm? Is there an influence of profitability on policy or corporate capital structure and profitability on value of the firm? Is there an influence of policy of corporate capital structure on value of the firm?

Objectives of this research are to analyze and examine the influences of: capital expenditure on capital structure and capital expenditure on value of the firm, market risk on policy of corporate capital structure and market risk on value of the firm, corporate growth on policy of corporate capital structure and corporate growth on value of the firm, ownership structure on policy of corporate capital structure and ownership structure on value of the firm, profitability on policy of corporate capital structure and profitability on value of the firm, policy of corporate capital structure on value of the firm. Hypothesis of this research are; H1.1 = capital expenditure has influence on corporate capital structure, H1.2 = capital expenditure has influence on value of the firm, H2.1 = corporate growth has influence on capital structure, H2.2 = corporate growth has influence on value of the firm, H3.1 = ownership structure has influence on corporate capital corporation, H3.2 = ownership structure has influence on value of the firm, H4.1 = market risk has influence on corporate capital structure

H4.2 = market risk has influence on value of the firm, H5.1 = profitability has influence on corporate capital structure, H5.2 = profitability has influence on value of the firm and H6.1 = capital structure has influence on value of the firm.

RESEARCH METHOD

Population and Sample

Population in this research is all of go public manufactured corporations registered in Indonesian Stock Exchange (BEI) of the year 2000 until 2005, the total sample is 132 corporations. Choosing and determining the sample are based on technique of purposive sampling type judgment sampling, it is technique of pulling sample intentionally based on certain criteria in order to get an appropriate sample to research objectives.

Type of Data

Type of data in this research is the secondary data, they are data published by the corporation, from Indonesian Capital Market Directory (ICMD) published by Indonesian Stock Exchange, Statistic Bank and Indonesian Finance, Corporation Annual Report, Jakarta Stock Exchange Monthly Statistics, completed with the previous research, literature and research journals related to the topic of this research.

Classification of Research Variable

There are two endogen variable in this research; capital structure and value of the firm. Whereas, there are five exogenous variable; capital expenditure, corporate growth, ownership structure, market risk and corporate profitability.

Exogenous variable consists of; variable of capital expenditure (X1) with indicator of Fixed Asset (X1.1), Cost of Promotion/Sales (PS) (X1.2), Cost of R&D/Sales (RDS) (X1.3), variable of corporate growth (X2) with indicator of sale growth (X2.1) and active growth (X2.2), variable of ownership structure (X3) with indicator of managerial ownership (X3.1) and institutional ownership (X3.2), variable of market risk (X4) with indicator of interest rate (X4.1) and fluctuation of foreign currency exchange rate (X4.2) and variable of corporate profitability (X5) with indicator of Return on Asset (ROA) (X5.1), Return on Sales (ROS) (X5.2), Return on Equity (ROE) (X5.3) and Return on Investment (ROI) (X5.4). Meanwhile, endogen variable consists of; variable of capital structure (Y1) with indicator of Debt Ratio (DR) (Y1.1) and Debt to Equity Ratio (DER) (Y1.2), Long Term Debt to Total Asset (LTD/TA) (Y1.3), Long Term Debt to Total Equity (LTD/TE) (Y1.4), variable of value of the firm (Y2) with indicator of stock price (SP) (Y2.1) and market book value (MBV) (Y2.2)

Technique of Data Analysis

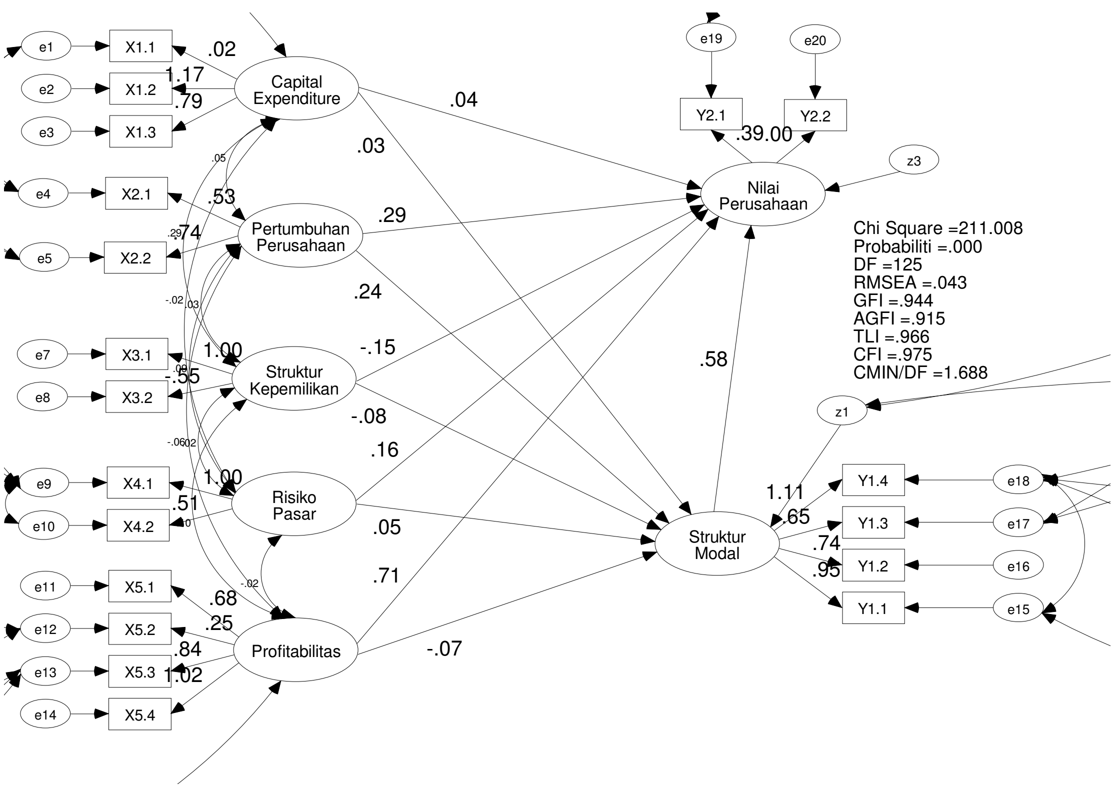
Based on formulation of the problem and elaboration of research hypothesis above, it can be determined that entirely relationship among variable show causal complex and gradual relationship. The relationship engages endogen and exogenous variable, and to find out the relationship among the variable simultaneously then applied statistic method with multivariate analysis by Structural Equation Modeling.

ANALYSIS AND DISCUSSION

Refers to the way of determining value in the model, then model examining variable are classified into exogenous and endogenous variable. Exogenous variable is variable which its value determined out of model. Endogenous variable is variable which its value determined through equity or formed relationship model. Exogenous variable are capital expenditure (X1), corporate growth (X2), ownership structure (X3), market risk (X4) and profitability (X5) whereas endogenous variable are capital structure (Y1) and value of the firm (Y2).

Goodness of fit model, if the model develops hypothetic model theoretically supported by empiric data. Analysis SEM is applied in the first step completely, look at the following figure 1.

Figure 1.
The Influence of capital expenditure (X1), corporate growth (X2), owner ship structure (X3) market risk (X4) and profitability (X5) on capital structure (Y1) and value of the firm (Y2).



Goodness of Fit Model, if the model develops hypothetic model conceptually and theoretically supported by empiric data. Based on table 1 and refer to parsimony concept, there are seven criteria: **x – chi-square**, CMN/DF, GFI, AGFI, TLI, CFI and RMSEA show a good model, then understood that the model is reasonable to be applied.

Table 1

Evaluation the Goodness of Fit Indices Model Entirely

Goodness of fit index	Cut-off Value	Model Result	Explanation
X2 – chi square	Expected small	211.008	Good Model
Sign.Probability	≥ 0.05	0.000	Marginal Model
CMIN/DF	≤ 2.00	1.688	Good Model
GFI	≥ 0.90	0.944	Good Model
AGFI	≥ 0.90	0.915	Good Model
TLI	≥ 0.95	0.966	Good Model
CFI	≥ 0.95	0.975	Good Model
RMSEA	≤ 0.07	0.043	Good Model

Table 2 is examining hypothesis by comparing value of **t count** with **t table**, if t count is higher than t table then the relationship among variable are significant and can be analyzed furthermore. In the degree of freedom (df) = 384 (the last model), value of t table (α = 5%) is 1,96, and (α = 10%) is 1,65. Result of this research is presented in the following table.

Table 2
Hypothesis Testing

Hypothesis	Exogenous Variable	Endogenous Variable	Loading Factor	t count	Probability (p value)	Explanation
H1	Capital expenditure	Capital Structure	0,03	Fix	(fix)	significant
H2	Capital expenditure	Value of the firm	0,04	Fix	(fix)	significant
H3	Corporate growth	Capital Structure	0,24	Fix	Fix	significant
H4	Corporate growth	Value of the firm	0,29	2,129	0,033	significant
H5	Ownership Structure	Capital Structure	-0,08	-2,257	0,024	significant
H6	Ownership Structure	Value of the firm	-0,15	-1,214	0,225	Not significant
H7	Market Risk	Capital Structure	0,05	Fix	Fix	significant
H8	Market Risk	Value of the firm	0,16	0,1596	0,111	Not significant
H9	Profitability	Capital Structure	-0,07	-2,077	0,038	significant
H10	Profitability	Value of the firm	0,71	5.763	0,000	significant
H11	Capital Structure	Value of the firm	0,58	5.309	0,000	significant

Explanation:

- Significant on level 5%, table t value ($\alpha = 5\%$) = 1.96

Then based on table 2 the structural equation is as follows:

ZY1 = 0,03 ZX1 + 0,24 ZX2 – 0,08 ZX3 + 0,05 ZX4 – 0,07 ZX1 + e1

ZY2 = 0,04 ZX1 + 0,29 ZX2 – 0,15 ZX3 + 0,16 ZX4 + 0,71 ZX5 + 0,58 ZY1 + e2

a. The Influence of Capital Expenditure on Capital Structure

Theoretically, capital expenditure has negative significant influence on capital structure. The result of this research states that capital expenditure has positive significant influence on capital structure.

These research findings mean that manufactured corporation registered in BEI for 2000 – 2005 which have more budget ratio for research, development and promotion having uniqueness, utilizing finance from debt in the corporate capital structure with debt proportion higher than internal finance. These findings also show that the corporate uniqueness is incapable increasing the corporate profit, it causes the retained earning not increase then the cost proportion of debt increase.

These results are suitable with research carried out by Elmasry (2004) that a corporation which utilizing intangible asset has positive relation to capital structure. It indicates that in Indonesia manufactured corporation registered in BEI for 2000 – 2005 which allocates more budget for research, development, and promotion, utilizing finance becomes more from debt in corporate capital structure. However, these findings compare with research by Titman (1988), Moh'd (1998) and Blease, Kaen and Baumann (2005) state that capital expenditure has negative significant influence on capital structure.

b. The Influence of Corporate Growth on Capital Structure

The result of these research findings is that corporate growth has positive and significant influence on capital structure, it is showed in picture 1 that is positive and significant influence between corporate growth variable and capital structure with path coefficient 0,24. It means that these research analysis findings are agree with hypothesis H3, that is corporate growth variable has influence on capital structure. It is also consistent with research by Low and Cen (2004) that argue the corporate growth variable has positive influence on capital structure. From the analysis result, this research has similar findings with Hung et al. (2002) and Esperanca et al. (2003), the researches explain that corporate growth has positive and significant influence on capital structure. It is also supported by Klapper (2002) research that declare the growth has positive influence on capital structure.

These findings have meaning that the more grow and develop the corporation, it will have more debt proportion in its capital structure policy.

c. The Influence of Ownership Structure on Capital Structure

The result findings of this research are ownership structure variable has negative and significant influence on capital structure. It shows that the increasing of ownership structure will reduce utilizing of financial source from debt in the corporate capital structure in financing corporate investment. These findings are consistent with Pecking Order Theory. It is also suitable with hypothesis, then hypothesis accepted. These analysis results are consistent with Theory of the Firm, Jansen and Meckling (1976), who explain that ownership structure will influence on capital structure.

The result of analysis shows that if the corporate stock ownership structure rises it means that there is spreading of stock holder then corporate management will get more control which cause reducing corporate capital structure. This condition means that debt utilizing as corporate control will be reduced. Since the more ownership structure the more effective control towards the corporate management. These findings are also in accordance with Bhatala et al. (1994) research that state the insider and institutional ownership have negative relation to debt ratio (capital structure). Moh'd et al (1998) substantiates by showing the proof that stock internal ownership structure (manager) has negative and significant influence on debt ratio (capital structure).

d. The Influence of Market Risk on Capital Structure

The result findings are market risk (by indicators of interest rate and foreign exchange rate) has positive and significant influence on capital structure. This analysis is suitable with hypothesis, they are variable of market risk has effect on capital structure. The result of analysis shows that in Indonesia manufactured corporation registered in BEI for 2000 – 2005 when they determining financial policy based more on debt in corporate capital structure, and corporate management is very concentrate on the influence of market risk.

These findings are accordance to Theory of capital structure -Trade-off Theory, Modigliani and Miller (1963) argue that taxes bringing the corporation in financing its investment using financial resource from debt then there is taxed thrift from load of interest, so it can improve the value of the firm. However, debt utilizing out of control will cause load of interest and big installment which disturb cash flow, and finally create threat of bankruptcy.

e. The Influence of Profitability on Capital Structure

The result findings of research analysis are profitability has positive and significant influence on capital structure. These findings indicate that the more profit of the corporation get the more return earning achieved, then financial choice is better using internal finance (return earning). The corporation will effort to reduce debt utilizing proportion of capital structure, it means that it reduces corporate capital structure. These findings are consistent with Pecking Order Theory. Based on this theory the corporation is prefer utilizing internal finance to debt. Emery and John (1998), Johnson (1997), and Moh'd (1998) state that profitability has negative significant influence on capital structure. It means that if the profitability increasing the capital structure decreasing.

f. The Influence of Capital Expenditure on Value of the firm

The result finding of this research analysis is capital structure has positive and significant influence on value of the firm. This finding is suitable with research by Blease, Kaen and Baumann (2005, 29). From the analysis it can be said that investment on intangible asset will give a long term profit, that is improving the corporate brands and finally making positive response from the investors, automatically the corporate stock price will increase, then the value of the firm will rises. This result shows that when the corporation has more invest on intangible asset measured from cost of research, development and promotion, then it has certain attractive power to investors and has positive influence on corporate stock price.

g. The Influence of Corporate Growth on Value of the firm

The result finding of this research states that the corporate growth has direct, positive and significant influence on value of the firm. The research result shows that the corporation becomes bigger then the stock holder reliance becomes higher. Finally the corporate stock price will increase then improving the value of the firm.

h. The Influence of Ownership Structure on Value of the firm

The result finding of this research states that ownership structure has no direct influence, negative relation and insignificant on value of the firm. This research result refuses hypothesis that explain the ownership structure has significant influence on value of the firm. The finding of research analysis shows that the more composition of institutional and manager ownership, it has no influence on value of the firm. This finding refuses the research findings of Agrawal and Mandelker (1990), Gedajlovic and Shapiro (1998) in Miguel et al. (2004) that show the proof which institutional ownership has positive and linear relation to value of the firm.

i. The Influence of Market Risk on Value of the firm

The research result finds out the positive direct but insignificant relation between market risk and value of the firm variable.

This research result is proven refusing the presented hypothesis. This finding reverses side the research by Hamton (1989; 34) that rate of interest is one of market risk which give effect on value of the firm. From the research analysis, the changing of market risk has no relation to value of the firm then it means that the investors are not influenced by rate of interest and changing fluctuation of foreign exchange rate when they buy stock. It is proven that stock price are not changing and value of the firm is not influenced by market risk.

j. The Influence of Profitability on Value of the firm

The result finding of this research states that profitability has direct, positive and significant influence on value of the firm.

The research result is proven accepting hypothesis of profitability has significant influence on value of the firm. This finding is accordance with research by Itturiaga and Danz (2201) that state the profitability has positive influence on value of the firm. It means that corporate profitability has positive influence on value of the firm reflected in raising stock price. The finding of research analysis shows that corporate profitability has nfluence on value of the firm. It indicates that corporate profitability will increase the value of the firm, because the profitable corporation will share its dividend to the investors. It creates positive response from the investors then the corporate stock price will increase and finally improving the value of the firm. Therefore, profitability variable becomes significant determination for the investors soaking money in stock of public corporation.

k. The Result Analysis of the Influence of Capital Structure on Value of the firm

The result finding of this research states that capital structure has direct, positive and significant influence on value of the firm. The finding of this research is suitable with research by Clarke (1991) that debt publishing will has positive influence but right issue publishing will has negative influence on value of the firm. The research result also supports trade-off theory. Related to value of the firm, debt utilizing in certain limit will increase the value of the firm since income tax thrift is bigger than distress and agency cost. Nevertheless, debt utilizing in certain limit will reduce the value of the firm, because the profit from income tax thrift is not proportional to the amount of distress and agency cost.

From this research result indicates that financial policy of manufactured corporation in Indonesia registered in BEI for 2000 – 2005 have determined the market responses. Then it becomes the best choice to improve the value of the firm.

CONCLUSION

Conclusion of this research supports pecking order theory. There are three choices in the corporate financial policy; the first using internal finance, the second from debt the third by publishing new stock. It means the corporation gives priority to retained earning or utilizing internal finance.

This research also examines agency theory for ownership structure, capital structure and value of the firm. The examining concludes that ownership structure has influence on capital structure and value of the firm supports the agency theory.

The result of this research also encourages trade-off theory. Related to the value of the firm that utilizing of debt in certain limit, it will increase the value of the firm because income tax thrift is bigger than distress and agency cost

This research also gives approval to theory of capital structure based on asymmetric information. The corporate financial policy applies for debt, since debt has not sensitive characteristics towards asymmetric information. It is different if be compared with corporate financial policy by publishing right issue. In the asymmetric information, the corporate financial policy by publishing right issue will get negative response from the investors as the result decreasing the stock price and the value of the firm. The corporate financial policy by publishing right issue, there is no tax thrift for the corporation. It is different from corporate financial policy by utilizing debt, whereas for the old stock holder their stock value will reduce, since the profit of stock sheet decrease (if by publishing new stock).

IMPLICATION

Manufactured corporations registered in BEJ for 200 – 2005 do not only has investment on tangible asset, since this research findings are proven that investment on intangible asset having influence on capital structure and increasing the stock price then finally encouraging the value of the firm. If the corporation has more asset and profit, it will have more proportion in utilizing debt in the corporate financial policy. On the other hand, the more asset and profit for the corporation, it is not capable increasing the value of the firm yet.

It is crucial for the investors, candidate investors or minority stock holders always keep control to the corporate decision maker accurately since there is probability that his policy will make disadvantages for them.. Changing of interest rate and foreign exchange rate will effect on the corporate financial policy in its capital structure, that the proportion of utilizing debt becomes more. However, changing of external factors is not capable increasing the value of the firm yet, perhaps there is another influenced factors.

If the profit of corporation increases, it tends to use return earning in the financial policy then it will reduce the capital structure. Automatically it creates positive responses from the investors since the corporation with high capital structure is solvable. It improves the value of the firm. At the last, this research is expected giving contribution towards management literature elaboration particularly in financial management in the topic of corporate financial policy.

REFERENCES

Agrawal, A., and G. Mandelker (1987), Managerial Incentive and Corporate Investment and Financing Decision, *Journal of Finance 42, 823-837.*

Aivazian, VA., Ying Ge dan Jiaping Qiu, 2005, The Impact of Leverage on Firm Investment: Canadian Evidence, *Journal of Corporate Finance*, 11, p.277-291.

Alan, V.S. Douglas, 2001, Capital structure and the control of managerial incentives, *Journal of Corporate Finance* Vol 8, pp. 287-311.

Allen, N. Berger and Emilia Bonaccorsi di Patti, 2004, Capital structure and firm performance: A new approach to testing agency theory and an application to the banking industry, *Journal of Banking & Financing* xxx, pp. 1-37.

Amato, LH, and Christie H. Amato, 2004, Firm Size, Strategic Advantage, and Profit Rates in US Retailing, *Journal of Retailing and Consumer Services*, 11, p.181-193

Ammar, A, Awad S. Hanna, Erick V. Nordheim and Jeffery S. Russel, 2003, Indicator Variables Model of Firm's Size-Profitability Relationship of Electrical Contractors Using Financial and Economic Data, *Journal of Construction Engineering and Management*, Vol. 129, No. 2, p.192-197

Anderson, CW., and Luis Garcia-Feijoo, 2005, Empirical Evidence on Capital Investment, Growth Options, and Security Returns, *Journal of Corporate Finance*, 11, p.449– 472

Armen, H, Gayane Hovakimian and Hassan Tehranian, 2003, Determinants of target capital structure: the case of dual debt and equity isues*, Journal of Finance Economics* 71, pp 517-540.

Bailey, W, Connie X. Mao, and Rui Zhong, 2003, Exchange rate regimes and stock return volatility: some evidence from Asia's silver era, *Journal of Economics and Business*, 55, p.557–584

Bandyopadhyay, A, and Sandwip Kumar Das, 2005, The Linkage between the Firm's Financing Decision and Real Market Performance: A Panel Study of Indian Corporate Sector, *Journal of Economics and Business*, 57, p.288-316.

Bargee, WC, Mukerjee S, and Raines GA, 1996, Do Sales-price and Debt-Equity Explain Stock Returns Better than Book-Market and Firm Size?, *Financial Analysis Journal.*

Barcley, MJ, and Smith CW, 1995, The Priority Structure of Corporate Liabilities*, The Journal of Finance,* Vol. L. No. 3 pp. 899-917.

Baskin, J (1989), An empirical investigation of the pecking order hypotesis*, Journal of Financial Management, Spring.*

Bathala, C.T., K.R. Moon, and R.P. Rao (1994), *Managerial Ownership, Debt Policy, and the Impact of Institusional Holding; an Agency Perspective,* Financial Management 23, 38-50.

Bayless, ME, and Diltz JD, 1994, *Securities Offerings and Capital Structure Theory,* Journal of Business Finance & Accounting, 21(1) pp. 77-90.

Bens, D A., J. Douglas Hanna and X. Frank Zhang, 2002, Research and Development, Risk, and Stock Return, *Proceeding from Workshop at The University of Illinois*, Chicago.

Bhagat, S, Nathalie Moyen and Inchul Suh, 2005, Investment and Internal Funds of Distressed Firms, *Journal of Corporate Finance*, 11, p.449-472.

Bilson, CM., Timothy J. Brailsford, and Vincent J. Hooper, 2001, Selecting macroeconomic variables as explanatory factors of emerging stock market returns, *Pacific-Basin Finance Journal*, 9, p.401–426

Bosworth, D, and Mark Rogers, 2001, Market Value, R&D, and Intellectual Property: An Empirical Analysis of Large Australian Firms, *The Economic Record*, Vol.77, No.239, p.323-337.

Brickley, J., R.C. Lease and C.W. Smith, Jr., 1988, Ownership structure and voting on antitakeover amendments, *Journal of Financial Economic*, 20, 267-291.

Brigham, E and R. Daves, 2004, *Intermediate Financial Management*, Eighth Edition, South Western, USA.

Chauvin, KW. and Mark Hirschey, 1994, Goodwill, Profitability, and The Market Value of The Firm, *Journal of Accounting and Public Policy*, 13, 159-180

Chen, Z, and Ming Dong, 2004, Stock Valuation and Inevstment Strategy, *Yale ICF Working Paper*, No. 00-46

Chiao, C, and C. James Hueng, 2005, Overreaction Effect Independent of Risk and Characteristics: Evidence from the Japanese Stock Market, *Japan and the World Economy*, 17, p.431-455.

Chirinko, RS., and Julie Ann Elston, 2006, Finance, control and profitability: the influence of German banks, *Journal of Economic Behavior & Organization,* Vol. 59, p.69–88

Cho, M.H. (1998), Ownership Structure, Investment, and the Corporate Value and Empirical Analysis*, Journal of Law and Economics, vol. 47, pp. 103-121.*

Cooper, DR., Emory C. William, 1990, *Business Research Methods,* 5th edition, Richard D. Irwin, Inc. All Rights Reserved.

Copeland TE, Weston JF, 1996, *Financial Theory and Corporate Policy,* Eight Edition, Tokyo: The Dryden Press CBS Publishing.

Crutchley, C., Marlin R.H. Jensen, John S. Jahera, Jr Dan Jennie E. Raymond, (1999), Agency problems and the simultaneity of financial decision making, The role of institutional ownership*, International Review of Financial Analysis 8:2*

Damodaran A, 2002, *Investment Valuation: Tools and Techniques*, Second Edition, Jhon Wiley and Sons, New York.

Demir, I, Jay Muthuswamy dan Terry Walter, 1994, Goodwill, Profitability and the Market value of the firm, *Pacific Basin Finance Journal*, 12, p.143-158.

Dhillon US, Johnson H, 1994, The Effect of Dividend Changes on Stock and Bond Prices, *The Journal of Finance,* Vol. XLIX, No. 1.

Donald, R. F, Hao Zhang and Chek Derashid, 2005, Capital structure and political patronage: the case of Malaysia, *Journal of Banking & Finance* xxx, pp xxx.

Domian DL, Gilster JE, and Louton DA, 1996, Expected Inflasion, Interest Rates, and Stock Returns, *The Financial Review*, Vol. 31.

Ebert, R J. and Ricky W. Griffin, 2003, *Business Essentials*, Fourth Edition, Prentice Hall, Upper Saddle River, New Jersey.

Elmasry, Hasan, 2004, Capital Intensity and Stock Returns, *Working Papers*, Morgan Stanley Investment Management.

Elton, EJ, Gruber MJ, 1989, *Modern Portfolio Theory and Investment Analysis,* Second Edition, Singapore: John Wiley & Sons.

Emery, D.R., Finnerty, J.D., 1997, *Corporate Financial Management,* United States of America, Prentice Hall International Inc.

Fama, E., Jensen, and Roll R, 1969, The Adjusment of Stock Prices to information, *International Economic Review, February, pp., 1-21.*

Feeny, S, and Mark Rogers, 2001, Innovation and Performance: Benchmarking Australian Firms, *Melbourne Institute Working Paper*, No.7/01.

Fischer OE, Heinkel, 1989, Dynamic Capital Structure Choice, Theory and Test, *The Journal of Finance, Vol. XLIV, No. 1.*

Friend, I. and J. Hasbrouck, 1988, Determinants of capital structure, *Research in Finance, 7, 1-19.*

Friend, I. and L. Lang, 1988, An empirical test of the impact of managerial self-interest on corporate capital structure, *Journal of Finance, 43, 271-281.*

Gardner, J C. and Charles A. Trzcinka, 1992, All-equity firms and the Balancing Theory of Capital Structure, *Journal of Financial Reaserch.*

Gaver, J J., dan Kenneth M. Gaver, 1993, Additional Evidence on the Association between the Investment Opportunity Set and Corporate Financing, Dividend, and Compensation Policies*, Journal of Accounting and Economics 16, 125-160.*

Glen, J and Ajit Singh, 2004, Comparing capital structures and rates of return in developed and emerging markets, *Emerging Markets Review*, 5, p.161–192

Ghezzi, L L, 1994, The value of a firm with periodically changing profitability, *European Journal of Operation Research*, 73, p.44-49

Ghos A, C F, 1999, Capital Structure: New Evidence of Optimality and Pecking Order Theory, *American Business Review.*

Gilson, S C., 1997, Transaction Cost and Capital Structure Choice: Evidence From Financially Distressed Firm, *The Journal of Finance Vol. VII. No. 1 March 1997.*

Gitman, L J., 2004, *Principle of Financial Management*, Tenth Edition, Addison Wesley, Massachusetts.

Graham, R C., Cameron K.J. Morrill and Janet B. Morrill, 2000, *Political Uncertainty and Firm Valuation: Evidence of a Discount Related to the Quebec Independence Movement*, Available online at http://papers.ssrn.com/paper.taf?abstract_id=232427

Gujarati, N. Damodar, 1995, *Basic Econometrics*, Third Edition, Mc Graw Hill International editions, Economics Series.

Hair, J F., Rolph E. Anderson, Ronald L. Tatham, dan William C. Black, 1995, *Multivariate Data Analysis: With Reading*, fourth edition, McMillan Publishing Company.

Hall, B H., and Raffaele Orianny, 2003, Does The Market Value R&D Investment by European Firms? Evidence from a Panel of Manufacturing Firms in France, Germany and Italy, *Proceedings at The Seminar at University of Bologna*, Italia.

Homaifar G., Zietz J., and Benkato O, 1994, An Empirical Model of Capital Structure; some new evidence, *Journal of Bussines Finance & accounting, 21 (1), pp., 1-14.*

Hooker, M A., 2004, Macroeconomic factors and emerging market equity returns: a Bayesian model selection approach, *Emerging Markets Review*, 5, p.379–387

Jack, G and Ajit Singh, 2004, Comparing capital structures and rates of return in developed and emerging markets*, Emerging Markets Review 5, pp. 161-192.*

Jean, J. Chen, 2003, Determinants of capital structure of Chinese-listed companies, *Journal of Business Researc 57, pp 1341-1351.*

Jensen, M. and W. Meckling (1976), *Theory of the Firm: Managerial Behaviour Agency Cost, and Ownership Structure, Journal of Finance Economics 3, 305-360.*

Jeny, A C, and Thomas Jeanjean, 2003, Value Relevance of R&D Reporting: A Signaling Intrepretation, *Proceedings*, ESSEC Business School, Perancis.

Johnson SA, 1997, *The Effect of Bank Debt on Optimal capital Structure,* Financial Management, Vol. 26 No. 4 pp. 47-56.

Joseph, FH, Rolph EA, Ronald LT, William CB, 1987, *Multivariate Data Analysis-With Reading,* Third Edition, New York, MacMillan Publishing Company.

Kamath, RR, 1997, Long-Term Financing Decisions: Views and Practices of Financial Managers of NYSE Firms, *The Financial Review, Vol. 32, No. 2, pp. 331-356.*

Kale, J.R. and T.H. Noe, 1990, Dividends, uncertainty, and underwriter costs under asymmetric information, *Journal of Financial Research, 13, 265-277.*

Kathleen, M. Eisenhardt, 1989, Agency Theory: An Assessment and Review, *Academy of Management Review, vol 14, no 1, pp 57-74.*

Kim, W. and E. Sorenson (1986), Evidence on the Impact of the Agency Cost of Debt on Corporate Debt Policy*, Journal of Finance and Quantitative Analysis 21, 131-144.*

Larry, G. Perry and James N. Rimbey, 1998, The Impact of Ownership Structure On Corporate Debt Policy: a Time-Series Cross-Sectional Analysis, *The Financial Review 33, pp 85-98.*

Lee, KC, Kwok CCY, 1988, Multination Corporation VS. Domestic Corporation: International Environmental Factors and Determinants of Capital Structure, *Journal of International Business Studies, pp. 195-217.*

Leland, HE, and Toft KB, 1996, Optimal Capital Structure, Endogenous Bankruptcy, and the Term Structure of Credit Spreads, *The Journal of Finance, Vol. LI: No. 3, pp. 987-1019.*

Levy, Halm, and Sarnat Marshall, 1990, *Capital Invesment & Financial Decisions*, Fourth edition, Prentice Hall International, UK Ltd.

Lundholm, Russel dan Richard Sloan, 2004, *Equity Valuation & Analysis: with eval*, McGraw Hill, New York.

Maurer, DC, Triantis AJ, 1994, Interactions of Corporate Financing and Investment Decisions: A Dynamic Framework*, The Jornal of Finance, Vol. XLIX, No. 4, pp. 1253-1277.*

Mark, J. Flannery and Kasturi P. Rangan, 2005, Partial adjustment toward target capital structures, *Journal of Finance Economics 79, 469-506.*

Mc Donald, John G, Jacquillat Bertrand and Nussenbaum Maurice, 1975, Dividend, Investment, and Financing Decisions Empirical Evidence on French Firm, *The Journal of Financial and Quantitative Analysis, December 1975.*

Mehran, H. (1992), Executive Incentive Plans, Corporate Control and Capital Structur, *Journal of Finance and Quantitative Abalysis 27, 539-560.*

Mehran, H., dan Cole R.A. (1998), The Effect of Changes in Ownership Structure on Performance: Evidence from the Thrift Industri*, Journal of Financial Economics 50, pp. 291-317.*

Miller, MH, 1991, Leverage, *The Jornal of Finance, Vol. XLVI, No. 2, pp. 479-488.*

Miguel, A, and Julio Pindado, 2001, Determinants of Capital structure: New Evidence from Spanish Panel Data, *Journal of Corporate Finance*, 11, p.77-99.

Moh'd, MA, Perry LG, Rimbey JN, 1998, The Impact of Ownership Structure on Corporate Debt Policy: A Time-Series Cross-Sectional Analysis, *The Financial Review, 33, pp. 85-98.*

Morck, *et al.*, (1988), Management Ownership and Market Valuation: An Empirical, *Journal of Financial Economics, 20, pp. 293-315.*

Morelly, D, 2002, The relationship between conditional stock market volatility and conditional macroeconomic volatility Empirical evidence based on UK data, *International Review of Financial Analysis*, 11, p.101–110.

Morris, R D, (1987), Signalling, Agency Theory and Accounting Policy Choice, *Accountng and Business Researc, vol. 18, No. 69, pp. 47-56.*

Mougoue, M, and Mukherjee, K Tarun, *1994*, An Investigation Into The Causality Among Firms' Dividens, Invesment, And *Financing Decisions, The Journal Financila Reasearch Vol XVII, No 4 Pages 517-530 winter 1994*

Mukherji, S, Dhatt MS, and Kim YH, 1977, A Fundamental Analysis of Korean Stock Return, *Financial Analysis Journal, pp. 75-80.*

Myers, S. (1984), The capital structure puzzle*, Journal of Finance*, Vol. XXXIX, July.

Myers, S. and N. Majluf (1984), Corporate Financing add Investment Decision when Firms have Information Investors Do not Have, *Journal of Finance Economics 13, 187-221.*

Naccur, S B, and Mohamed Goaied, 1999, The Value Creation Process in the Tunisian Stock Exchange, *Proceeding API/WPS 9903*, Universite de Tunis IH, Faculte des Sciences Economiques et de Gestion, Tunisia

Oswald, D R., and Pau Zarowin, 2004, Capitalization of R&D and The Informativeness of Stock Price, *Proceedings at The European Accounting Association 2004 Annual Congress*, London.

Peterson, P P. and Benesh Gary A, 1983, A Reexamination of The Empirical Relationship Betwen Investment and Financing Decisions, *Journal of Financial and Quantitative Analysis vol. 18 No. 4, December 1983.*

Rajan, RG, Zingales L, 1995, What Do We Know about Capital Structure? Some Evidence from International Data, *The Journal of Finance, Vol. L, No. 5, pp. 1421-1460.*

Rataporn, D and Krishna Paudyal Gioia Pescetto, 2004, The determinants of capital structure: evidence from the asia pacific region, *Journal of Financial Management Vol 14, pp 387-405.*

Raymar, S, 1991, A Model of Capital Structure when Earing are Mean-Reverting, *The Journal of Financial and Quantitative Analysis, Vol. 26, No. 3, pp. 327.343.*

Richard, A. L and James E. McIntyre Jr, Leverge, imports, profitability, exchange rates, and capital investment: a panel data study of the textile and apparel industries 1974-1987, *International Review of Financial Analysis 12, pp 287-310.*

Ross, SA, 1977, The Determinant of Financial Structure: the incentive signalling approach, *Bell Journal of Economics 8, 23-40.*

Slovin, M B. Dan Marie E. Sushka, (1993), Ownership Concentration, Corporate Control Activity, and Firm Value: Evidence from the Death of Inside Blockholders, *Journal of Finance, Vol. XLVII, No. 4*.

Smith, M P. (1996), Shareholders activision by institusional investor, evidence from calpers, *Journal of Finance, Vol. XLI, No. 1.*

Spivey, M F. dan Jeffery J. Mcmillan, 2000, Value Creation and the entrepreneurial business, *Working Papers*, Clemson University.

Srinivasan, S, Koen Pauwels, Jorge Silva-Risso and Dominique M. Hanssens, 2005, Product Innovations, Advertising Spending and Stock Return, *Working Papers*, at The Spring 2005 Marketing Science Institute, Cambridge.

Strong, N, 1998, Discussion of Does The Pecking Order Hypothesis Explain The Dividend Payout Ratio of Firms in The UK*, Journal of Business & Accounting, 25, pp. 1157-1161.*

Taggart, RA., 1977, A Model of Corporate Financing Decision, *Journal of Finance, 32: 1467-1484*

Tirapat, S 1999, An Investigation of Thai Listed Firms Financial Distress Using Macro and Micro Variables, *Multinational Finance Journal, vol., 3, pp., 103-125.*

Titman, S, and Wessels R, 1988, The Determinants of Capital Structure Choice, *The Journal of Finance, Vol. XLIII, No. 1.*

Vogt, S, C. (1994), The role of internal financial sources in firm financing and investment decisions, *Review of Financial Economics, vol. IV, No. 1.*